



Manufacturing Survey

Tenth District Manufacturing Activity Grew at a Strong Pace

by: Chad Wilkerson

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Regional factory activity continued to increase in February. Firms noted that supply chain and shipping delays continue to cause issues. Most manufacturers reported higher business costs compared to a year ago and have passed through some of these costs to customers resulting in higher prices.

Factory Activity Grew at a Strong Pace

Tenth District manufacturing activity grew at a strong pace, and expectations for future activity increased (Chart 1, Tables 1 & 2). The monthly index of raw materials prices expanded at a steady pace in February and continued to increase compared to a year ago. Finished goods price indexes eased slightly from a month ago, but were above year-ago levels for most firms. Expectations for future raw materials and finished goods prices increased further.

The month-over-month composite index was 29 in February, up from 24 in January, and 22 in December (Tables 1 & 2). The composite index is an average of the production, new orders, employment, supplier delivery time, and raw materials inventory indexes. Increased activity was driven by growth in machinery manufacturing, plastics, fabricated metal products, and especially transportation equipment. On the other hand, beverage manufacturing, computer and electrical equipment, textiles, and petroleum manufacturing declined. Month-over-month indexes remained positive in February, indicating expansion. Indexes for production, shipments, new orders, employment, and new orders for exports increased at a faster rate in February. However, the pace of growth for order backlog and supplier delivery time moved down. Materials and finished goods inventories expanded modestly. Year-over-year factory indexes continued to rise at a steady pace, with a composite index of 50 for the fifth month in a row. Production, shipments, and employment indexes increased further from a year ago while growth in materials inventories eased slightly. The future composite index was 38 in February, edging higher from 37 in January as most future indexes increased. More firms expected increases in production, shipments, and new orders.

Special Questions

This month contacts were asked special questions about business costs and how much of their costs are passed through in the form of higher prices. In February, 96% of firms reported higher costs from wages and 84% of firms reported higher costs from non-wage benefits (Chart 2). A significant share of firms also reported higher financing costs and real estate expenses (e.g. rent, maintenance, and construction) though many firms also reported no change in those costs. Nearly all firms reported facing higher costs of some sort. 29% of firms indicated the ability to pass through 80-100% of cost increases to customers in the form of higher prices (Chart 3). However, 35% of firms reported they could only pass through 20% or less of cost increases (Chart 3). A number of firms commented that the high pace of increasing prices has made it difficult to pass through cost increases.

Selected Manufacturing Comments

“Shipping/freight is becoming a bigger and bigger issue.”

“301 tariff continues to affect our business in a negative fashion. Adding costs on top of transportation costs that will prevent us from growing and hiring.”

“Supply chain and logistics continue to be our biggest challenges. Besides the historically high cost of both inbound and outbound ocean freight, we are seeing no improvement in long delays at ports and are still having difficulties getting shipments out due to the lack of availability of truck drivers.”

“Finding qualified employees is difficult. Bigger issue for us is obtaining raw materials and supply chain continues to be dysfunctional.”

“We continue to see higher prices on everything from supplies, energy, capital equipment, services, contractors, and labor rates. Some of our input costs have [gone] up 300%.”

“Cost increases are coming in so fast it's difficult to raise prices quickly enough to keep up.”

“We do not operate on high margins. Any increase gets passed through to the customer in full or at least partially.”

“Steel [price] increases have been passed on to customers, all other costs have not.”

“We went out with a 15% price increase in 2022. We have not had any pushback.”

“We have to [give] notice 2-6 months in advance of any price increases in order to get them in place. This means we cannot effectively pass along increases in products to our customers as fast as our vendors pass them along to us causing [profit]

margin erosion and other financial issues.”

“Only reason I am able to pass significant price increases to my customers is because my competitors don't have the products either.”

Survey Data

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Chad Wilkerson serves as Oklahoma City Branch Executive and Senior Vice President of Community Development for the Federal Reserve Bank of Kansas City. Wilkerson has been with the Federal Reserve since 1998, starting in Kansas City's research department. Appointed in 2006 as Oklahoma City Branch Executive, Wilkerson is the Bank's lead officer and regional economist in Oklahoma. He recruits and works closely with the Oklahoma City Branch Board of Directors and is responsible for briefing the Kansas City Fed president, a member of the Federal Open Market Committee, on economic trends in the state. His team conducts research and surveys on key regional issues such as energy, manufacturing and migration. Wilkerson was appointed Senior Vice President in 2022, and supports a Community Development team located across the Kansas City Fed's seven-state region. This group works to understand and address issues affecting the ability of underserved communities and small businesses to access credit. Community development focus areas include financial resiliency, affordable housing, community investments, workforce development, rural development and digital inclusion. Wilkerson holds a master's degree in public policy from the University of Chicago, as well as a master's degree from Southwestern Seminary and bachelor's degree from William Jewell College. He serves on the boards of the Economic Club of Oklahoma, the United Way of Central Oklahoma and City Rescue Mission. He lives in Edmond, Oklahoma, with his wife and children.